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Recent Developments in Soviet Hard Currency Trade

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**Recent Developments
in Soviet Hard
Currency Trade**

CONCLUSIONS

Following a marked improvement in its trade balance in 1974, the USSR faces a record hard currency trade deficit in 1975. But Moscow's hard currency payments position remains healthy.

Soviet hard currency trade in 1974 was strongly affected by the Western recession and inflation. High world prices for Soviet primary product exports generated, as expected, a Soviet hard currency trade surplus for most of the year. Declines in primary product prices, coupled with lower Western demand for Soviet goods and a greater availability of Western goods to fill Soviet orders, changed the trade balance to a deficit in the fourth quarter, and the deficit increased further in the first quarter of 1975. For 1974 as a whole, the USSR incurred a moderate hard currency trade deficit of US \$912 million.

Soviet hard currency exports rose 58% in 1974, with prices almost doubling and volume declining. The value of exports has been declining since October because of slack demand and lower prices. Imports increased 30% in 1974, primarily because of larger volume of such products as steel and machinery. Imports spurted in the fourth quarter and have since remained high.

The severity of the Western recession in the first half of 1975 and the prospect of only a slow recovery in the second half of the year will make it difficult for the USSR to increase its total 1975 exports over the 1974 level. Imports, on the other hand, are bound to increase substantially as a result of already placed contracts for machinery and equipment – imports of which are expected to increase by more than \$1 billion – and additional grain imports, which could add another \$1 billion or more. Consequently, a record hard currency trade deficit of at least \$2 billion and possibly as much as \$3 billion can be expected.

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Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 7107.

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In spite of its rapidly worsening trade balance, the USSR should not have serious financial difficulties in 1975. Long- and medium-term Western credits are assured to cover a large part of machinery imports. The USSR sold \$675 million in gold in 1974 and could sell more than \$1 billion in 1975 without drawing down its reserves. Moscow also has access to large Eurodollar credits.

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DISCUSSION

Background

1. Soviet hard currency imports traditionally have exceeded exports, but poor grain harvests have from time to time led to a rapid, unplanned increase in imports and substantially greater deficits. For example, the USSR had trade deficits of \$1.4 billion in 1972 and \$1.7 billion in 1973 - more than \$1 billion greater than in 1970-71. Soviet export earnings improved considerably in 1974 as a result of the rapid rise in world market prices for many Soviet raw materials. Soviet exports increased 58% to \$7.6 billion, imports rose 30% to \$8.5 billion, and the hard currency trade deficit declined to \$912 million, as shown in the accompanying tabulation and in Appendix A.

	Million US \$		
	Exports	Imports	Balance
1970	2,197	2,711	-514
1971	2,652	2,955	-303
1972	2,815	4,171	-1,356
1973	4,818	6,566	-1,748
1974	7,630	8,541	-912

2. Soviet hard currency trade in 1974 reflected Western inflation and recession. The economic downswing in the West had little effect on world trade during the first half of the year as inflation was boosted to record levels by soaring prices for oil and other commodities. Fear of shortages and expectations of still higher prices brought continued growth in trade volume. This speculative boom set the stage for the sharp fall in world trade volume which began in the final quarter of 1974. With economic activity contracting, firms in many industrial countries had built up excessive inventories, and the stock overhang considerably worsened the trade slump in the fourth quarter.

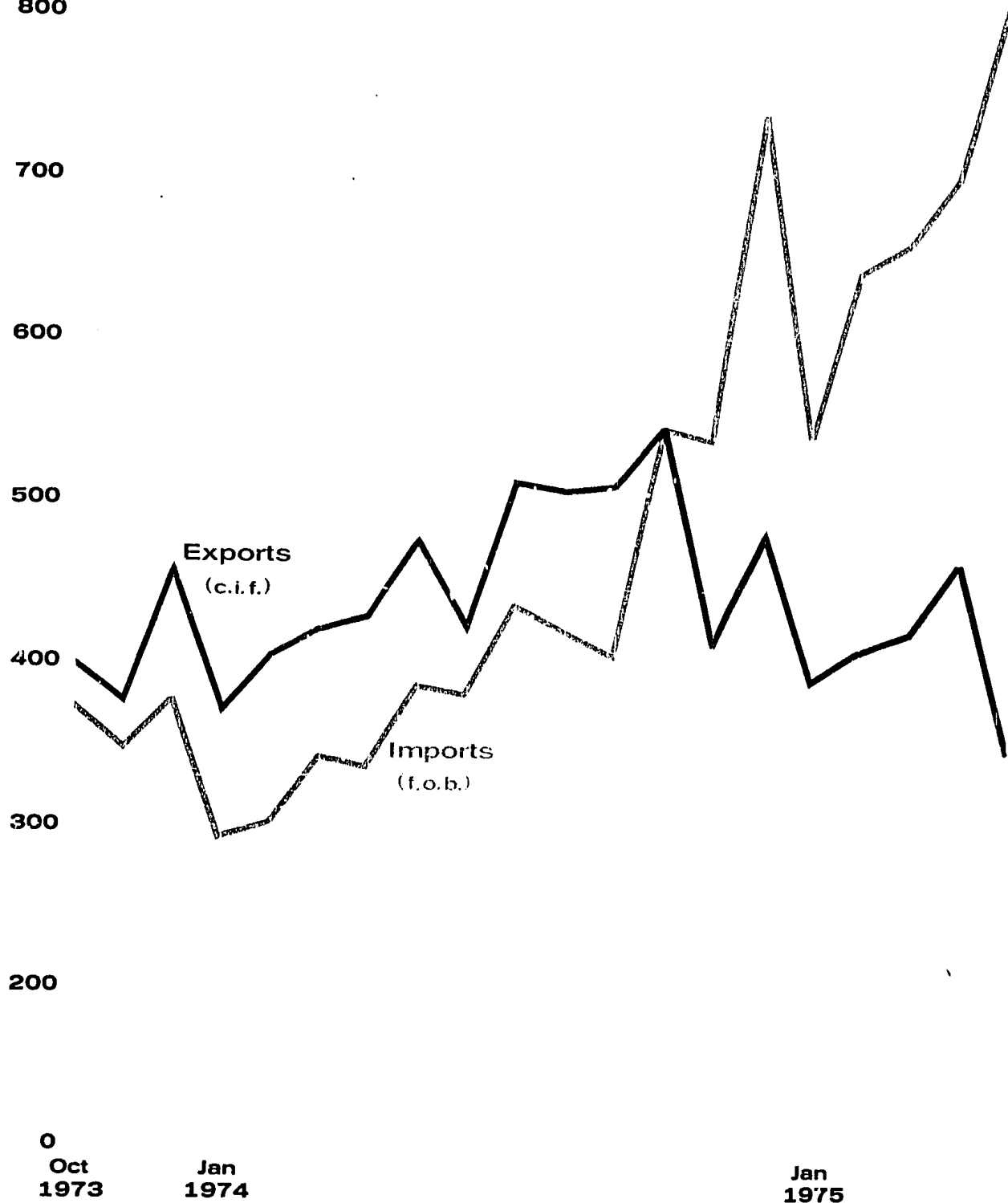
3. Soviet exports mirrored world trade in 1974, rising rapidly in the first three quarters, but falling sharply in November and remained low in December when Western demand and prices for Soviet raw materials declined rapidly (see the chart). The steady rise in prices for many Soviet imports and increased purchases of capital goods and steel also led to rising imports during the first nine months, but the sharp gain in Soviet imports from its major trading partners during the last quarter was made possible, in part, by the growing recession in the West. Western firms, caught with high inventories and declining demand, were eager to meet standing Soviet requests for increased imports - particularly for steel products. As a result, Soviet imports of steel products climbed dramatically during November and December.

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USSR: Trade with Its Six Largest Western Trade Partners *

Million US\$
800



*Including France, Italy, Japan, the United Kingdom, the United States, and West Germany.

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Soviet Exports

4. Higher world market prices for major Soviet exports, principally oil and wood, led to a large rise in Soviet export earnings in 1974 (see Table 1). On the average, Soviet export prices almost doubled, with nearly the entire change occurring in the first half of 1974. The prices of such commodities as oil, copper, and diamonds fell during the latter part of the year in response to a recession-induced decline in demand. Soviet prices did not closely follow overall price trends because of special factors or because responses were lagged.

Table 1

USSR: Changes in the Price and Quantity
of Selected Hard Currency Exports¹

	Change from 1973 to 1974 (Million US \$)	Percentage Change	
		Quantity	Price
Total exports	2,812	-19 ²	95 ²
Of which:			
Oil and oil products	1,314	-13	136
Coal and coke	120	11	68
Round timber	119	-10	45
Coniferous lumber	139	-30	118
Cotton fiber	134	-10	79
Platinum and platinum group metals	79 ³	-10 ³	43 ³
Copper	63	14	22
Aluminum	33	2	61

1. Based on official Soviet foreign trade data.

2. Based on a weighted price index.

3. Estimated.

5. Soviet receipts from the sale of crude oil and petroleum products almost doubled in 1974 to \$2,564 million and accounted for almost half of the total rise in Soviet export earnings. The average price of crude roughly tripled, but product prices in some markets increased to a lesser degree. Despite the rapid rise in world market prices for oil and record domestic crude oil production, the volume of Soviet crude oil and petroleum products exported to hard currency countries fell by 13% to 617,000 b/d in 1974.

6. The drop in sales volume was almost entirely attributable to the decision of French and Italian importers to reduce imports from previously negotiated levels. The exact cause of the reductions is unclear, but it probably was the result of the high prices charged by the USSR while the embargo remained in effect, increased availability of oil from other sources as the year progressed, and a general cutback in French and Italian consumption. Soviet oil was priced above the average for Middle Eastern oil during the first quarter of 1974, but soon fell to market levels or below.

7. Other Soviet export commodities played a major role in Soviet trade in 1974:

- Soviet earnings from the sale of wood and wood products rose by \$312 million to \$1 billion in 1974 on the strength of substantially higher prices. Prices for Soviet saw logs – sold mainly to Japan – were 45% higher than in 1973, and prices for lumber – marketed primarily in the United Kingdom – were more than double the previous year's levels. In both cases the rapid rise occurred in the first quarter, with prices remaining at the higher levels for the balance of the year. Although initially lower, prices for lumber charged British and West German buyers rose faster than those charged by competitors, and by the end of the quarter Soviet prices caught up to those of other suppliers. The volumes of log and lumber exports were respectively 10% and 30% below 1973 levels. In both cases, deliveries in 1974 were concentrated in the second and third quarters; substantial falloffs in exports which occurred in November and December were probably connected to slumps in British and Japanese housing starts.
- Higher world prices contributed to a 60% increase in Soviet earnings from cotton exports in 1974 to \$357 million, despite a 10% decline in volume. Cotton prices in major markets rose sharply in mid-1973 but have fallen since mid-1974. Soviet prices to Japan, which took about 60% of Soviet cotton exports to hard currency countries in 1974, lagged behind the increase in world prices, but caught up when a new contract doubling prices apparently was signed in July 1974.
- Earnings from coal exports increased 87% in 1974 to \$225 million, with average prices up 68%. Soviet prices more or less followed world price trends during the year.

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- Natural gas earnings were only \$86 million in 1974, as deliveries to Italy were just beginning and those to West Germany remained small. Although prices rose 53%, much larger price increases are yet to come. Soviet agreements with Austria, Italy, and West Germany call for natural gas prices to be tied to – but at a discount from – the cost of home heating oil. By mutual agreement, however, the rise in prices resulting from the rapid price increase of alternative fuels has been spread out over a period of two to three years.
- Higher prices accounted for half the 40% rise in Soviet earnings from copper sales. Soviet prices followed world market levels closely, rising rapidly during the first half of the year and falling sharply thereafter.
- Strong world demand, fueled in part by speculation, led to higher prices for Soviet platinum and platinum group metals in 1974. Despite an estimated 10% drop in volume, 1974 earnings rose by an estimated \$80 million to \$353 million. Sales to Japan remained strong throughout the year, while sales to the United States – Moscow's other major consumer – were largely concentrated in the first six months. Despite a falloff in world demand, Soviet diamond sales picked up during the last six months of 1974 and totaled \$400 million for the year. Soviet sales are tied to a marketing agreement with the DeBeers Corporation, and the rising Soviet sales in the face of declining world demand suggests a lag in this arrangement.

Soviet Imports

8. Soviet imports from the West rose by \$2 billion in 1974 in spite of a \$900 million decline in grain purchases. Larger volume and higher prices were both important factors in the \$2.9 billion increase in non-grain imports (see Table 2). For example, imports of nontubular steel more than doubled, with a 43% increase in price, and imports of machinery and equipment, plastics, rubber, and pipe also rose in both volume and price. In other cases, particularly chemicals, higher prices accounted for most of the increase in the value of imports.

9. Steel shortages have long plagued the Soviet economy, but they have become more acute as a result of Soviet decisions to accelerate domestic construction activity, such as the speed-up in building the Baikal-Amur-Magistral rail line. Soviet importers have relied on the West for most of their import needs.

Table 2

USSR: Changes in the Price and Quantity
of Soviet Hard Currency Imports¹

	Change from 1973 to 1974 (Million US \$)	Percentage Change	
		Quantity	Price
Total imports	1,975	N.A.	N.A.
Machinery and equipment	594	22 ²	10 ²
Crude oil	59	-69	294
Steel	988	57	41
Pipe	226	8	42
Shaped and rolled steels	718	102	43
Plastics and related materials	236	7 ²	171 ²
Other chemicals	212	-10 ²	139 ²
Natural rubber	127	22	62
Textile raw material and semimanufactures	54	-3 ²	3 ²
Grain	-900	-76	45
Meat	126	3	3
Raw sugar	-171	3	3
Other foods	-61	N.A.	N.A.
Manufactured consumer goods	59	N.A.	N.A.
Unspecified imports	233	N.A.	N.A.
Other imports	419	N.A.	N.A.

1. Based on Soviet statistics.
2. Representative sample.
3. Not imported in both years.

In 1974, Western firms accounted for 70% of the total volume of steel imports, and Soviet imports of steel products from the West doubled in value to \$1.9 billion.

10. Soviet efforts to procure steel for delivery in 1974 began as early as March 1973, coinciding with a high level of demand for steel in world markets, reflected in rising prices and full order books for most steel producers. The USSR, a marginal buyer of steel in the West, was hard pressed to place orders that year but, by its willingness to pay premium prices, gained acceptance from some producers for increased deliveries in the first half of 1974. Even well into 1974, as the deepening recession weakened demand from the automotive and construction industries, steel producers remained busy, bolstered by strong demand for investment goods, particularly equipment for energy-related industries. Late in the

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year, however, as orders dropped off, the Soviets were able to obtain deliveries of steel before the end of the year. Paradoxically, the Soviets paid more for their steel at the end of the year than earlier because contracts were concluded at prices existing when demand was high. For the year as a whole, the average price of steel imported by the Soviets was 43% above 1973.

11. Imports in 1974 also featured the following:

- Soviet imports of machinery and equipment from the West rose to \$2.3 billion in 1974, up by \$600 million over the 1973 level. This gain was anticipated because of the increased number of Soviet equipment orders placed in the West in 1972 and 1973 (see Appendix B). Orders for most 1974 deliveries were placed before the 1973 oil embargo, when prices were relatively stable. Prices were not a major factor in the increase. Available information indicates an average price increase of about 10% and a 22% increase in volume. Machine tools, mainly for the automotive industry, registered the largest increase, followed by oil and gas field equipment.
- Soviet imports of chemical products, particularly plastics and material to produce plastics, increased rapidly in 1974 as a result of higher prices being charged in the West. For the year as a whole, prices of plastics and related materials almost tripled, while imports rose only 7% in volume. The price rise for imports of other chemicals, while not as great (up an estimated 139%) led to a \$212 million increase in imports despite an estimated 10% drop in volume. Available data do not indicate clearly the timing of these price variations.
- Other Soviet imports showed mixed results. Grains fell sharply in 1974 -- by 63% to \$523 million -- but Moscow paid an average of 45% more, compared with 1973. Soviet sugar imports fell \$170 million to \$17 million in 1974. Imports of meat were renewed, however, as Moscow took advantage of Western surpluses and accompanying low prices to import \$126 million worth of meat during the year. Although Soviet purchases of textile raw materials and related semimanufactures rose by only \$54 million in 1974, they constituted a major component of Soviet hard currency imports at almost half a billion dollars.

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Hard Currency Balance

12. Although considerably smaller than the 1973 deficit, the 1974 hard currency deficit of \$912 million was a surprise. Much of the 1974 deficit resulted from the rapid rise in Soviet imports that occurred in the last quarter. According to partner country statistics, the USSR ran average monthly surpluses of about \$40 million with OECD countries during the first half of the year and surpluses of \$68 million during the third quarter. In the fourth quarter the balance shifted as the USSR incurred an average monthly deficit of \$35 million. Transactions with several of the USSR's major trading partners¹ show an even more pronounced reversal – from an average monthly surplus of \$117 million in the third quarter to an average monthly deficit of \$95 million during the fourth.

Financing the 1974 Deficit

13. Moscow easily covered its 1974 trade deficit by selling gold and drawing on Western credits. In 1974 the USSR's basic balance – the balance of current and long-term capital transactions – was in surplus by more than \$900 million (see Table 3).

14. The Soviets sold 131 metric tons of gold in 1974 – less than half of the estimated Soviet production – earning about \$675 million. Sales were considerably less than the 304 tons of gold in 1973, but estimated earnings fell by only some \$325 million because market prices were 63% higher in 1974 (an average of \$158.80 per troy ounce). Most of the sales were concentrated in the first quarter of 1974, when heavy demand led to a 30% rise in price. With the subsequent softening in the gold market, Soviet sales slumped. Selling reportedly picked up in late October as gold prices rocketed from \$155 per ounce on 18 October to a record \$199.50 per ounce by year's end.

15. The USSR was able to draw an estimated \$1.7 billion of medium- and long-term credits to finance imports, most of which are government guaranteed and made available at subsidized interest rates. An estimated \$1.4 billion in machinery and equipment imports was financed in this manner. West Germany, France, and Japan were the major sources of credit; Soviet imports from the United States backed by Eximbank credits totaled \$117 million in 1974. Because

1. Official trade statistics of the United States, Japan, France, West Germany, Italy, and the United Kingdom. Western trade statistics traditionally differ from those provided by the USSR, particularly with respect to Soviet exports, which are reported on f.o.b. basis by the USSR and on a c.i.f. basis in the West. Trends in Soviet trade, however, are similar, regardless of which statistics are used.

Table 3

USSR: Hard Currency Balance of Payments

	1973	1974
Merchandise exports, f.o.b. ¹	4,818	7,630
Merchandise imports, f.o.b. ¹	-6,566	-8,541
Nonmonetary gold	1,000	675
Services and private transfers, net ²	325	401
Official transfers, net	-49	-54
Current account balance	-472	111
Long-term capital, net	1,013	820
Basic balance	541	931
Change in Eurocurrency position on the London market, net ³	494	-605
Errors and omissions, net ⁴	1,035	326

1. Derived from Soviet statistics.

2. Interest payments and receipts on short-term loans are not included. Estimated receipts from transportation have been recently revised.

3. Soviet position with continental banks is not known; the position with London banks may include some medium-term liabilities.

4. Including changes in hard currency holdings, short-term capital movements other than in London, and hard currency repayments from less developed countries for Soviet credits and arms sales.

repayments on past drawings rose faster than additional credits received, net credits² fell by more than 30% to \$600 million (see Table 4). Nonetheless, earnings from exports increased even faster than repayments on interest and principal, and the debt service ratio fell to 15%.

16. The several gas-for-pipe agreements signed in recent years with West Germany, France, Italy, and Austria also call for long-term credit support for Soviet purchases of large-diameter pipes. In 1974, about \$300 million in pipe imports were estimated to have been associated with these deals and thus covered by credit. The USSR did not choose to use available CCC credits to finance any of the \$282 million³ worth of wheat, corn, and rye purchased from the United States in 1974. This lack of interest in medium-term US credits can be attributed to higher interest rates on CCC credits and the general improvement in Moscow's balance of payments in 1974.

2. Net credits represent the addition to Soviet hard currency receipts after repayments of interest and principal on past drawings have been accounted for.

3. US statistics. Soviet statistics show \$350 million in grain imports.

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Table 4

USSR: Estimated Drawings and Scheduled Repayments
on Medium- and Long-Term Credits

	Million US \$				Percent ¹
	Drawings	Scheduled Repayments of Principal and Interest	Net Credits	Outstanding Debt at Yearend	Debt Service Ratio
1966	275	170	105	505	11
1967	305	181	124	658	11
1968	510	255	255	951	13
1969	630	322	308	1,316	15
1970	715	389	326	1,722	18
1971	682	477	205	2,029	18
1972	1,030 ²	573	457	2,608	20
1973	1,695 ²	815	880	3,645	17
1974	1,710	1,110	600	4,465	15

1. Scheduled repayments of principal and interest as a percent of hard currency exports.

2. Including drawings on three-year Commodity Credit Corporation credits.

Outlook for 1975

Merchandise Trade

17. Soviet hard currency trade in 1975 will again be determined, in part, by Western economic conditions. Economic activity in the USSR's major Western trading partners, as well as their total import demand, declined during the first six months and is expected to increase only slightly during the remainder of the year. These trends, as well as seasonal factors,⁴ were reflected in an 18% drop in the monthly rate of Soviet exports to major Western countries during the first quarter of the year from the second half of 1974 (see Appendix C). At the same time the value of Soviet imports continued to rise despite low prices for some products, notably steel and chemical fertilizers.

18. Western economic trends suggest that the USSR will do well to achieve export earnings in 1975 equal to last year's. Hard currency earnings will depend

4. During 1970-74, Soviet exports during the first six months were, on the average, 27% below exports during the last six months.

heavily on Soviet sales of oil, wood products, and metals. Prospects for these commodities are mixed.

19. Soviet oil exports will be limited more by Western demand, which was soft during the first half, than by Soviet supply. A maximum increase of 3 million tons will increase earnings by about \$400-\$500 million.⁵ French firms have ordered upwards of 2 million tons of crude oil for delivery this year, compared with the less than 1 million tons received last year, and Portugal has agreed to take additional crude in 1975. Shipments to Denmark, Austria, and West Germany also appear to be up in 1975.

20. Exports of natural gas should rise on the strength of higher quantity and price. Soviet exports to Italy, West Germany, and Austria should rise by 29% in volume to roughly 230 million cubic feet in 1975 (equivalent to 110,000 b/d of crude oil). Earnings will rise even faster – up 160% to an estimated \$225 million – as the USSR begins deliveries under renegotiated prices.

21. Sales of wood and wood products should fall significantly in 1975. Reduced Western demand for timber products has led both to a softening in prices and a decline in sales volume. Exports of lumber to Japan, the United Kingdom, and West Germany are down sharply, and sales of logs to Japan during the first quarter have fallen by some 12% in volume and up to 19% in price. While the UK housing industry is on the upswing and could lead to increased Soviet sales, prospects for a resurgence in West German and Japanese timber demand appear far less favorable.

22. Prospects for Soviet sales of platinum and platinum group metals are also poor. Prices have fallen from last year's high levels, and demand has also subsided. Platinum sales to Japan, a major Soviet market, have fallen by almost 50%, the decline being evenly split between lower prices and reduced volume. Sales of platinum and platinum group metals to the United States have also fallen by some 50% from last year's levels. Sales of other precious metals also appear to be down. Diamond sales to the United Kingdom, which takes most Soviet gem diamond exports, are now running below 1974 levels.

23. The commodities discussed above usually account for almost two-thirds of Soviet hard currency trade earnings. Oil and gas produce almost one-half of the expected earnings, and the expected increases for these products may not be

5. The higher figure assumes an OPEC price increase of \$1.50 per barrel.

sufficient to offset the declines expected for most other commodities. Any substantial gain in total Soviet earnings in 1975 would require a definite improvement in Western demand in the latter part of the year.

24. Despite the fall in export earnings, Soviet imports from the West during the first quarter remained at high levels. January-May 1975 statistics of several major Soviet trading partners indicate that imports are running 55% above last year's average, as Moscow has maintained the high level of imports reached late in 1974.

25. Imports of machinery and equipment - expected to grow by \$1-\$1.5 billion - will account for most of the anticipated rise in Soviet imports in 1975. Soviet orders placed in the West totaled \$6.5 billion during 1973-74 - up from \$2.4 billion in 1971-72. US deliveries of equipment for the Kama truck plant will be concentrated in 1975, and the Soviets have attached 1975 delivery dates to the several hundred million dollars worth of orders placed last year related to the development of Siberian forestry resources and the construction of a natural gas pipeline from Orenburg. Increased prices will constitute a significant portion of the projected rise, particularly for those items ordered in 1974, when prices were rising rapidly in the West. While the Soviets apparently were somewhat successful in resisting price escalation clauses, many Western firms were able to increase export prices considerably to compensate for higher production costs.

26. The volume of steel imports will probably exceed last year's levels. Moscow has placed large contracts with West German, Japanese, and Belgian firms for 1975 deliveries of non-tubular steel, and Italian and West German deliveries of large-diameter pipe are scheduled to rise significantly. Recession-induced price reductions, however, will offset the gains in volume. Prices for certain Japanese steels, for example, have dropped by one-third or more from October 1974.

27. Agricultural imports will increase greatly in 1975 because a severe drought has reduced the Soviet harvest to far below current needs. Moscow can be expected to import up to 20 million tons of grains for delivery during fiscal year 1976, even assuming no additional US sales. The Soviets already have contracted for 15.3 million tons, all for delivery by September 1976. Prices should be slightly above the average delivered price in 1974. Total expenditures in 1975 for scheduled grain deliveries should exceed \$1 billion and may reach \$1.5 billion by yearend - \$500 million-\$1 billion above 1974. A poor 1974 sugar beet harvest resulted in \$250-\$300 million in raw sugar imports, and meat imports may reach last year's level of \$125 million.

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Financing the 1975 Deficit

28. The Soviet hard currency trade deficit will reach record levels in 1975 – more than \$2 billion and possibly as much as \$3 billion. Moscow is in a strong position to finance such a deficit.

- Its cash position improved in 1974 despite the trade deficit. The Soviets sold \$675 million in gold, obtained a net of \$600 million in medium- and long-term credits, and earned several hundred million dollars from arms sold to the Middle East following the October 1973 war. The strengthened Soviet position was illustrated by a \$605 million improvement in the USSR's short-term position on the London Eurocurrency market.
- Medium- and long-term credits will again be used to cover a major share of Soviet imports of capital goods and large-diameter pipe. On the basis of anticipated purchases, Soviet medium- and long-term drawings should exceed \$2.5 billion in 1975. Net credits from these drawings should, in turn, exceed \$1.4 billion.
- The Soviets will also utilize the Eurocurrency market to raise additional funds. Since December 1974, Moscow has gone to the Eurodollar market three times for a total of \$400 million in consortium loans. In addition, Moscow reportedly has arranged a number of smaller loans with individual banks and is currently attempting to organize a syndicated loan for \$400 million. Western bankers agree that the USSR could easily raise an additional several hundred million on the Eurodollar market, if it is willing to pay market rates of interest.

29. The prospect of a record deficit may also bring more Soviet gold into international bullion markets this year. Moscow traditionally has kept a substantial reserve of gold for such times (see Appendix D), and the rapid increase in gold prices has enhanced Soviet ability to use gold sales to cover trade deficits. Confirmed Soviet gold sales in the first quarter of this year amounted to 12 tons, earning about \$68 million. Unconfirmed reports indicate that another 50 tons were sold during the second quarter, earning perhaps \$270 million. In addition, rumors circulated in July that the USSR sold 50 tons of gold directly to the Middle East, bringing in roughly – at an estimated \$165 per ounce – an additional \$265 million.

30. How much gold the USSR will sell during the balance of the year depends on both its ability to raise additional funds from other sources and what the market will bear. In the past two years, Moscow has been particularly sensitive to gold price movements, selling only when prices have been rising or at least firm. If South Africa reduces its sales this year, as expected, Soviet sales may exceed the 1974 level. It would take 190 tons to yield \$1 billion at current prices.

Role of the United States

31. Historically, the United States has had only a small share of Soviet hard currency trade. Following the May 1972 summit and the subsequent granting of Eximbank and CCC credits, US-Soviet trade, especially US exports, grew rapidly. In 1973 the United States was second only to West Germany among Soviet hard currency trading partners, as shown in the following tabulation:

	Million US \$					
	1972		1973		1974	
	Exports	Imports	Exports	Imports	Exports	Imports
United States ¹	92	558	186	1,381	234	746
West Germany	322	710	651	1,031	1,162	1,836
Japan	462	525	840	503	1,196	1,026
France	235	424	367	607	525	717
United Kingdom	449	226	730	236	911	263
Italy	278	285	418	411	789	712

1. Based on Soviet statistics rather than US Department of Commerce data. Soviet statistics show Soviet exports (US imports) somewhat lower than US statistics and Soviet imports (US exports) higher.

The sharp increase in Soviet imports from the United States in 1973 resulted largely from grain deliveries and, to a lesser extent, purchases of machinery and equipment. When grain imports declined in 1974, US-Soviet trade slumped.

32. During the first six months of 1975, Soviet imports from the United States were 72% above last year's figures. Imports will remain high, particularly if US grain traders deliver a good share of recently concluded grain contracts by yearend. US deliveries of grains under existing contracts should reach \$800 million in 1975, well above the \$350 million exported last year (but still below the record \$950 million sold in 1973).⁶ US deliveries of machinery and equipment will also

6. Soviet statistics. US statistics show exports of \$282 million and \$837 million, respectively.

rise considerably in 1975 as US manufacturers make delivery on a large share of the \$1.3 billion in equipment ordered by the USSR in 1973-74. By contrast, Soviet exports in the first six months of 1975 were running about 25% below last year's pace.

Financing US Exports

33. The availability of US Eximbank-backed credits in 1973-74 allowed Soviet buyers to shop in the United States under commercial conditions competitive with those available abroad. During this period the US share of total Soviet contracts placed in the West reached 20%, and, perhaps even more important, Soviet negotiators - assuming continued Eximbank support - were discussing several billion dollars worth of additional deals with US firms. During the two-year period beginning in October 1972, Eximbank authorizations to the USSR grew to \$470 million, supporting some \$1 billion in contract sales. Thus, most of the Soviet \$1.3 billion in contracts with US firms were supported by Eximbank.

34. The closing of the Eximbank window has had several effects on US-Soviet trade. Once Soviet negotiators were certain that Eximbank funds would not soon be available, negotiations with many US firms began to center on the ability of the US company to obtain the needed equipment in Western Europe and Japan to allow the USSR to take advantage of low-interest credit lines available abroad (see Appendix E). In such instances, Soviet purchases from the US company would be restricted to technology and management fees or to those end items not available elsewhere. One US manufacturer has stated that \$800 million worth of orders connected with a forestry development project would have to be produced abroad because of the lack of Eximbank credits, and US firms reportedly lost a \$250 million contract to supply a chemical pipeline for the same reason.

35. In the absence of Eximbank credits, the Soviets have sought to finance US capital goods purchases through commercial credits or have decided to pay cash. US banking regulations limit the amount of loans US banks can make to the USSR, however, and US bankers in any event cannot compete with foreign subsidized credits in either terms of interest rates or credit length. Despite these drawbacks, Soviet officials have continued to negotiate with US firms for major deals, particularly when foreign firms are unable to meet the delivery dates required by the USSR or do not have the technology and know-how considered crucial by the USSR. Financial discussions with US bankers also continue. US banks are negotiating for a \$100 million credit to finance the US portion of exploration costs for the Yakutsk natural gas fields, for example, and other banks are involved in raising monies on the Eurocurrency market or US money markets.

APPENDIX A

USSR: COMMODITY COMPOSITION OF HARD CURRENCY TRADE¹

	1973		1974	
	Value	Percent	Value	Percent
Total exports²	4,818	100.0	7,630	100.0
Crude oil and petroleum products	1,250	25.9	2,564	33.6
Coal and coke	135	2.8	255	3.3
Natural gas	33	0.7	86	1.1
Ferrous and nonferrous metals	475	9.9	582	7.6
Wood and wood products	720	14.9	1,032	13.5
Lumber	268	5.6	436	5.7
Cotton fiber	223	4.6	357	4.7
Furs and pelts	67	1.4	71	0.9
Other	837	17.4	1,434	18.8
Unspecified ³	1,077	22.4	1,247	16.3
Total imports²	6,566	100.0	8,541	100.0
Machinery and equipment	1,739	26.5	2,333	27.3
Rolled ferrous metals	883	13.4	1,871	21.9
Pipe	428	6.5	654	7.7
Nonferrous metals	45	0.7	103	1.2
Chemicals	279	4.2	727	8.5
Plastics	95	1.4	331	3.9
Rubber	129	2.0	256	3.0
Food	2,088	31.8	1,082	12.7
Grain	1,423	21.7	523	6.1
Manufactured consumer goods	202	3.1	261	3.1
Other	818	12.5	1,292	15.1
Unspecified	383	5.8	616	7.2

1. Source: official Soviet foreign trade statistics.

2. Because of rounding, components may not add to totals shown.

3. Composed mainly of exports of diamonds, platinum and platinum group metals, and nickel.

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APPENDIX B

USSR: ORDERS FROM THE WEST

	Millien US \$			Percentage Distribution	
	1973	1974	Jan-Jul 1975	Average 1973-74	Jan-Jul 1975
Total	2,270	4,239	2,090	100	100
France	400	863	369	19	18
Italy	130	310	266	7	13
Japan	205	685	519	14	25
Sweden	145	87	132	4	6
United Kingdom	155	252	65	6	3
United States	505	799	303	20	14
West Germany	645	1,044	327	26	16
Other	85	199	109	4	5

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APPENDIX C

USSR: TRADE WITH THE BIG SIX¹

	Monthly Averages in Million US \$											
	1974						1975					
	1st Half		3d Qtr		4th Qtr		1st Qtr		Apr		May	
	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port
Total	409.5	340.5	506.4	417.5	477.4	602.8	403.2	607.7	458.9	695.5	342.0	801.9
West Germany	97.1	123.3	109.9	156.8	104.7	215.4	99.4	196.4	116.9	244.5	88.0	326.2
Japan	113.3	59.5	139.0	94.0	107.0	152.3	95.8	138.8	102.7	147.3	101.1	153.7
France	42.5	45.3	55.6	52.7	55.3	76.9	56.1	82.8	67.5	102.9	55.4	75.3
Italy	53.2	41.9	80.4	58.8	80.4	63.3	67.4	66.4	56.3	93.6	41.8	109.1
United States	31.4	52.8	25.6	33.0	28.4	66.0	26.3	92.1	18.1	77.9	16.6	92.7
United Kingdom	72.0	17.7	95.9	22.2	101.6	28.9	58.2	31.2	97.4	29.3	39.1	44.9
Trade balance	69.0		88.9		-125.4		-204.5		-236.6		-459.9	

1. Sources: official Western trade statistics. Soviet exports are priced c.i.f. and imports f.o.b.

2. Data unavailable for all nations.

APPENDIX D

USSR: GOLD POSITION

	<u>Metric Tons</u>					
	1970	1971	1972	1973	1974	1975 (Preliminary)
Production	201	218	252	261	267	310
Consumption	39	39	40	41	42	43
Sales	3	19	158	304	131	N.A.
Net change in reserves	159	160	54	-84	94	N.A.
Yearend reserves	1,552	1,712	1,766	1,682	1,776	N.A.

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APPENDIX E

USSR: MAJOR CREDIT AGREEMENTS CONCLUDED WITH THE WEST

	Value of Contracts Receiving Credit Support (Million US \$)	Percent- age Down- payment	Amount of Credit (Million US \$)	Interest Rate	Credit Length (Years)	Description
Total	10,000¹		8,225¹			
General-purpose credit lines						
Canada	N.A.	N.A.	490	7.45	N.A.	Covers Soviet purchases during 1975-77.
France	3,500	20	2,800	7.20-7.55	Up to 8.5	Covers Soviet purchases during 1975-79.
United Kingdom	2,838 ²	20	2,270	7.20-7.50	7 to 8.5	Covers Soviet purchases during 1975-79.
Project-associated credits						
Italy	330	20	264	7.345 ²	8	For the purchase of chemical plants.
	525	N.A.	N.A.	7.2	N.A.	For 35% of value of large-diameter pipe imports during 1975-79.
Japan	223	30	156	7.5 ¹	10 ¹	For the purchase of four ammonia plants.
	450	10 ¹	405 ¹	6.38-7.25	5 to 8 ¹	For imports associated with the Yakutsk coal development project.
	550	10 ¹	495 ¹	6.38-7.25	5 to 8 ¹	For imports associated with the timber development project.
	100	10	90	6.375	8	For the exploration of Siberian natural gas deposits. Loan condi- tioned on presence of similar loan from US sources.
	53	N.A.	N.A.	6.75-7.25	7 to 8	For geological survey equipment and consumer goods associated with exploration of Sakhalin Island offshore oil deposits.
	100-200	N.A.	N.A.	6	18	Private risk capital to assist in exploration of Sakhalin offshore deposits.
West Germany ³	375	22	293	N.A.	6	For the purchase of special- purpose trucks.
	700	15	577	6.75	8.5	For the purchase of large-diameter pipe imports during 1975 and 1976.

1. Estimated.

2. Less amount of guaranteed credit currently outstanding.

3. Interest rates are subsidized by exporting firms, not by the West German government.

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